

Message Text

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ACTION NEA-07

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SUBJECT: GOI PROJECTIONS OF PAYMENTS REQUIREMENTS FOR DEFENSE IMPORTS

1. OMB OFFICIALS SANDERS AND DUSAULT AND ECON COUNSELOR MET WITH MINISTER OF DEFENSE (DG SEUSSMAN AND FINANCIAL ADVISOR LIPSCHLITZ) ON AUGUST 26. SUSSMAN LED OFF WITH BRIEF DESCRIPTION OF HOW THEY ARRIVED AT PROJECTIONS OF FUTURE EXPENDITURES FOR DEFENSE. HE SAID THAT THEY FIRST LOOKED AT THE BUILD-UP OF FORCES IN THE CONFRONTATION STATES AND THEN CONSIDERED WHAT BACK-UP SUPPORT WOULD BE AVAILABLE FROM MORE SITUANT ARAB COUNTRIES. THEY NEXT DEVELOPED A PERCEPTION OF THE THREAT FROM POTENTIAL ENEMIES (JUST SHORT, HE SAID, OF THE WORST CASE SITUATION) AND DECIDED WHAT WOULD BE REQUIRED TO WIN IF THE THREAT TURNED INTO REALITY.

2. FROM THIS THEY CAME UP WITH "RATIOS" OF ARAB/ISRAEL FORCES ANTICIPATED OVER THE NEXT SEVERAL YEARS. HE SAID THAT THESE RATIOS HAD IN FACT CHANGED VERY LITTLE SINCE 1973. WHILE THE QUANTITIES OF ARAB FORCES HAD GENERALLY NOT INCREASED FASTER THAN ISRAELI FORCES, THERE HAD BEEN CONSIDERABLE UPGRADING OF QUALITY IN THE ARAB WORLD. THIS WAS

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THE RESULT OF ARAB PURCHASES FROM BOTH WESTERN AND EASTERN

SOURCES. THERE WAS AN ADDITIONAL PROBLEM IN THAT ISRAEL MUST NOW DEVELOP COUNTER-MEASURES AGAINST WESTER AS WELL AS SOVIET WEAPONS SYSTEMS.

3. TURNING TO ISRAELI PROCUREMENT IN THE U.S., SUSSMAN SAID THAT THE SIGNING OF CONTRACTS RELATING TO THE "PRIME MINISTER'S LIST" WOULD NOT BE COMPLETED UNTIL 1978. THERE WOULD BE SOME ADDITIONAL SIGNING IN ISRAELI FY-76, BUT NO NEW SIGNING IN 1977; THE REMAINING CONTRACTS WOULD BE SIGNED IN 1978. THIS REPRESENTS SOME SLIPPAGE IN PROCUREMENT AND HE COULD ONLY HOPE THAT THERE WOULD ALSO BE SLIPPAGE ON THE ARAB SIDE.

4. LIPSCHLITZ, ELABORATING ON SUSSMAN'S COMMENTS, SAID THAT DURING THE REMAINDER OF ISRAELI FY-76 ISRAELI PURCHASES IN THE U.S. WOULD TOTAL \$650 MILLION, OF WHICH \$250 MILLION WOULD REPRESENT NEW PURCHASES AND 3400 MILLION WOULD GO FOR FOLLOW-ON SPARES. HE NOTED ALSO THAT THE PRIME MINISTER'S LIST TOTALLING \$2,164 MILLION WOULD NOT BE COMPLETED UNTIL FY-78, AND THAT THERE WOULD NOT BE ANY NEW ORDERS PLACED IN FY-77 -- ALTHOUGH THERE WOULD OF COURSE BE FOLLOW-ON REQUIREMENTS AND PAYMENTS ON EXISTING ORDERS NEXT YEAR. HE THEN PROVIDED HIS MINISTRY'S ESTIMATES OF PAYMENTS REQUIREMENTS FOR 1976-80 (ALL ON ISRAELI FISCAL YEAR BASIS). THEY ARE:

1976 - \$1,472 MILLION

1977 - \$1,452 MILLION

1978 - \$1,284 MILLION

1979 - \$1,351 MILLION

1980 - \$1,402 MILLION

5 LIPSCHLITZ NOTED THAT IF THIS MUCH FINANCING WERE TO BE PROVIDED BY THE U.S., THERE WOULD STILL BE "A SPILL OVER" AMOUNTING TO \$1,089 MILLION, I.E., A SHORT-FALL OF MORE THAN \$1 BILLION FROM THE \$8,050 MILLION WORTH OF MILITARY EQUIPMENT REQUESTED AND APPROVED SINCE THE 1973 WAR. HE PROMISED TO SUPPLY A TABLE OF CONVERSIONS OF PAYMENTS REQUIREMENTS FROM ISRAELI FISCAL YEAR TO U.S. CALENDAR YEARS. FOR 1976 AND 1977, HE SAID, CALENDAR YEAR FIGURES WERE \$2,140 MILLION AND \$1,500 MILLION,

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RESPECTIVELY. (WE HAVE SUBSEQUENTLY LEARNED THAT CONVERSION TABLE WAS SENT TO ECONOMIC MINISTER SHER FOR FORWARDING TO OMB AND OTHER U.S. AGENCIES.)

6. IN RESPONSE TO QUERY ABOUT ISRAELI MILITARY EXPORTS, SUSSMAN SAID THEY HAD HOPED FOR SALES IN EXCESS OF \$300 MILLION IN 1976 BUT IT NOW LOOKED AS IF THE TOTAL WOULD BE CLOSER TO \$280 MILLION. HE SAID THAT NO Kfir FIGHTERS

HAD YET BEEN SOLD. IT WAS A GOOD AIRCRAFT AND CERTAINLY PRICE COMPETITIVE, BUT UNTIL NOW PROSPECTIVE BUYERS HAD SEEMED "FOR POLITICAL REASONS TO BE UNWILLING TO ACCEPT ISRAEL AS A SOURCE". WITH REGARD TO LOCAL DEFENSE PRODUCTION, SUSSMAN SAID THAT THEY WOULD PRODUCE CONSIDERABLY CHEAPER THAN THEY COULD BUY IN EUROPE AND THERE WAS ALSO A PRICE ADVANTAGE WITH RESPECT TO SOME U.S. ITEMS. FOR EXAMPLE, MOST LINES OF AMMUNITION COULD BE PRODUCED FOR UP TO TEN PER CENT LESS IN ISRAEL THAN IN THE U.S. WHEN ASKED ABOUT COSTS OF THE NEW TANK, SUSSMAN SAID THAT ISRAELI CALCULATIONS SHOW THAT AFTER ABOUT 200 ARE PRODUCED, THE COST PER TANK WILL BE ONLY SLIGHTLY MORE THAN THE PRICE OF THE M-60. SUSSMAN SAID THAT DIRECT MILITARY PURCHASES FROM NON-U.S. FOREIGN SOURCES TOTAL ABOUT \$300 MILLION PER YEAR. INDIRECT MILITARY IMPORTS FROM ALL SOURCES TOTAL ABOUT \$400 MILLION PER YEAR.

7. COMMENT: THIS WAS FIRST CONFIRMATION WE HAVE HAD THAT GOI HAS DECIDED TO PLACE NO NEW MILITARY ORDERS IN U.S. IN 1977. SLIPPAGE IN ORDER SCHEDULE WAS UNDOUBTEDLY DICTATED BY UNCERTAIN PROSPECTS FOR FUNDING OVER NEXT FEW YEARS. MOD OFFICIALS NEVERTHELESS NOTED DURING THIS DISCUSSION THAT THEY WERE WORKING ON ASSUMPTION THAT U.S. MILITARY ASSISTANCE WOULD AMOUNT TO \$1.0 BILLION IN FY-77, \$1.5 BILLION IN FY-78 AND \$1.5 BILLION INF FY-79.
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